

DPD-1469-59

4 March 1959

MEMORANDUM FOR: Acting Chief, Development Projects Division

SUBJECT : Approvals Procedures and Financial Controls

1. The basic concept of the new approvals procedure for the Development Projects Division is that policy decisions will be made in the form of the approval of blocks of activity described as programs. The procedure provides that original programs and amendments to programs in excess of \$10,000 must receive DD/P or DCI approval. Already a number of questions have arisen with respect to the amendment procedure which it is the main purpose of this paper to answer. It is useful to distinguish between four types of amendments which raise rather different problems.

2. The first type will be required in the process of firming up a program initially submitted with reasonably precise estimates covering certain items of cost but with only incomplete information and rough estimates on other items listed in the program approval form as "estimated and additional costs". Generally speaking, the initial program approval will authorize contract approval only with respect to the former category of firm items. Amendments will be required to obtain contracting authority for additional items as adequate information about them becomes available. If the items are not too large and if the information about them in the original program approval is not too incomplete, it is expected that DCI approval of amendments of this type will not be necessary and that DD/P approval will be routine.

3. A second category of program amendments includes those reflecting inevitable differences between the sums for which contracts are actually executed and even the firm estimates of costs contained in a program approval. The Contracting Officer, DPD, should have the authority to execute the contracts if they are less than the estimated cost or if they exceed the latter by only a modest amount. I would define

- 2 -

"modest" as 2 per cent or \$2,000, whichever is smaller. Where contracts vary substantially from the amounts estimated in the program approval, a program amendment should be submitted. This should not however require approval above the level of the Chief, DPD, unless the net effect of all contract changes is to increase the total amount of the program by more than \$10,000.

4. A third category of program amendments is that which covers changes in the scope of work under existing programs and usually under outstanding contracts. With respect to these, there can scarcely be any ambiguity as to the requirement for approval by the Chief, DPD, the DD/P, or the DCI depending upon the amount involved but there are certain practical problems of administration.

a. We frequently have on-call contracts with suppliers under which a sum has been obligated which is roughly estimated to be sufficient to cover miscellaneous activities for six months to a year. When some new task is imposed on the contractor under such a contract, it may involve neither the obligation of additional funds at the moment when the performance of the task is requested nor even any up-to-date revision in the estimated cost of the contract for the whole Fiscal Year. Yet it is precisely the accumulation of additional tasks in this painless manner that has sometimes given rise to painful surprises in the past. The real problem here, as I see it, is how to make sure, without excessive bureaucracy, that contractors with whom we have such contracts strictly limit their activities to tasks we have approved and that we ourselves keep track of what we have approved and of what the approved tasks are likely to cost.

b. To accomplish the desired results, it seems to me essential that tasks imposed on contractors be defined and listed and estimates of their costs recorded so that overruns on particular tasks can be detected as such and contractors can be held to account for costs that cannot be related to any approved task. If such accounting were attempted in too great detail, it would of course become highly bureaucratic, would generate much paper of limited value, and would deprive our contractors of that degree of freedom of action and responsibility which it has always been our boast that we afford them. What we must strive to do is to find the happy medium between over- and under-controlling.

- 3 -

c. One way of avoiding excessive control is to split the work to be done by a contractor into a moderate number of fairly large tasks or groups of tasks so defined as to facilitate sensible estimating and easy accounting. Another is explicitly to recognize contracts which call, not for the performance of specific tasks, but for the financing of goods and services as required, where such contracts are appropriate. It seems to me important, however, that for each contract of this type the rate of expenditure be estimated (or arbitrarily assumed) in advance and that the contract then be monitored by an officer responsible either for holding the volume of work called for within the estimated expenditure rate or alternatively for securing an amendment to permit a higher rate. Examples of work that might well be contracted for as specific tasks are the performance of IRAN on a stipulated number of aircraft or the provision of guards in stipulated numbers for a period of a year. On the other hand, continuing GUSTO feasibility studies could only have been handled in what amounts to an on-call contract subject to reconsideration every month or so. I feel that by judicious use of these two procedures for defining tasks and estimating and controlling costs we can avoid surprises resulting from piecemeal changes in scope without imposing any significant additional burden of accounting.

5. The foregoing suggests certain internal procedures within DPD for the handling of program amendments that result from changes in scope of work. It will be noted that the following proposed procedures would place considerably more responsibility than in the past on the several section heads that initiate program amendments to keep track of the status of contracts which are of special interest to them. In particular these procedures would place an important monitoring responsibility on section heads with respect to on-call type of contracts.

a. It should be the responsibility of the Contracting Officer as rapidly as possible to develop for each outstanding contract a statement of the basic scope of work covered and an estimate of the cost of that work with a reasonable but not burdensome breakdown by tasks.

b. The Contracting Officer should maintain a file of all authorized amendments to the basic scope of work with estimates of the cost of each. All such changes in scope should be finalized by an extremely brief exchange of correspondence between the Contracting Officer and the contractor.

- 4 -

c. Based on the above, the Contracting Officer should maintain for each contract a current estimate of total funding required for the Fiscal Year. Whenever the estimate, based on the estimated cost of the original scope of work plus estimated costs of approved and additional tasks sharply differs from an estimate submitted by the contractor, he will presumably regard this as indication that an overrun or underrun is in prospect and will communicate with the contractor to identify it as such. (This is suggested as the proper way to avoid unforeseen expenditures which are not overruns in the sense of costs in excess of estimates but rather the costs of unidentified or unauthorized tasks).

d. It is the responsibility of section heads authorized to initiate program approvals to recommend, where they believe it appropriate, a scope of work defined in broad and general terms to cover continuing activities, such as a series of feasibility studies, or the furnishing of spares and materiel on call, or the performance of services as required (for instance, EG&G) or a succession of minor production improvements. Where it is proposed to include contracts of such a character in a program submitted for approval, the contracts should be identified as such so that the Approving Officer will be aware of the action taken.

e. A program approval must be submitted to the Contracting Officer for any and every change in scope of work. Normally such a change will take the form of a request to a contractor that he perform an additional task. In the case, however, of contracts such as those referred to in the preceding paragraph with a broadly defined scope of work, there will be deemed to be changes in the scope of work only if the responsible section head proposes to authorize a rate of expenditure in excess of that contemplated by the original contract. It will be the responsibility of the appropriate section to keep informed (through the Contracting Officer) of the rate at which costs are being incurred under each such contract so that the section may either govern the contractor's volume of work to keep within the approved amount or alternatively can initiate an amendment in scope of work.

f. Program amendments which authorize changes in scope of work should generally be submitted to the Chief, DPD, or other approving officer, through the Contracting Officer so that the latter may advise the Approving Officer (orally or in writing depending on the magnitude or complexity of the decision) of the

- 5 -

current status of both the contract and the program in question. What is meant by the current status is the most up-to-date information available on expenditures to date and estimated expenditures for the balance of the year, taking account of all earlier program amendments, for comparison with the originally approved program.

6. The fourth category of program amendments includes those that may become necessary, neither in the process of translating a program into contracts nor as a result of changes in the scope of work during the program, but as a result of identifiable overruns. In these cases, the very concept of securing approval for an amendment is not applicable because it is assumed that the overrun is an accomplished fact or has become so for all practical purposes by the time this type of amendment is initiated. Nevertheless, it is clear that a submission to the appropriate approving officer is essential both to advise him of the unpleasant fact therein recorded and to permit him to study adjustments in other programs or activities that may be desirable or even necessary in the light of the overrun in question. It is believed that the submission may as well take the form of a program approval but the document should specifically indicate that it is an overrun report and should make clear what freedom of choice if any is left to the Approving Officer. For instance, it might state that unless the amendment is approved all work on a contract will have to stop with consequent halting of a major program. It hardly need be stated that every effort should be made to identify prospective overruns as early as possible in a program and to advise the appropriate approving officer of the anticipated overrun, either by seeking an amendment or in a less formal manner.

7. This long discussion of the program amendment procedure suggests certain other changes in the DPD financial management and especially accounting which should, I feel, receive serious consideration. In another year we will certainly wish to organize CHALICE as a program or set of programs and, although I do not feel that any further DCI approvals for CHALICE are required in the current year, I believe we may wish in the near future to put our accounts in a shape that will reflect this concept. When we do so, I very much doubt whether the whole of CHALICE should be treated as a single program. Not only does it include costs of very different types, many of them not contractual costs at all, but different parts of the CHALICE budget are the primary responsibility of different section heads. With this in mind, my specific suggestion is as follows: That the CHALICE budget should be composed of four programs as follows:

- 6 -

- a. Development;
- b. Production Improvement;
- c. Materiel - Including Installations and Maintenance;
- d. Operating and Administrative Costs.

Each of these programs would be the responsibility of the appropriate section head: The first that of the Chief, Research & Development Branch; the second and third that of the Chief, Materiel Branch; and the fourth that of the Chief, Administrative Branch. It might be desirable to add a fifth program to cover those activities for which the Director, Operations Branch has primary responsibility. I would propose that the budget as now presented on the Monthly Status of Funds Report be reorganized so that items are grouped under these four or five programs. New sub-programs (such as the [REDACTED] ECM device or the J-75 modification) could be handled as major program amendments.

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(Plans)